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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 92-184-W - ORDER NO. 92-975
NOVEMBER 16, 1992

IN RE: Application of Quail Ridge Water Company)
for Approval of a New Schedule of Water)
Rates and Charges for those Customers)
located in its Certificated Service Area)
in South Carolina.)

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application¹ filed by Quail Ridge Water Company (Quail Ridge or the Company) on June 3, 1992, for an increase in its rates and charges for water provided to its customers in Clarendon County, South Carolina. The Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended, and 26 S.C. Regs. 103-821 (1976).

By letter dated June 15, 1992, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file

1. The Company filed an amended Application on July 30, 1992. The amended Application did not alter the Company's requested increase, rather, the amendment reflected corrections to the Company's income.

appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. The Commission received a Petition to Intervene filed by Nancy L. Cave, a customer. No other petitions or protests were filed with the Commission.

On September 3, 1992, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room. Pursuant to S.C. Code Ann., §58-3-95 (Supp. 1991), a panel of three Commissioners, Commissioners Yonce, Butler, and Arthur, was designated to hear and rule on this matter. Commissioner Yonce presided. The Company was represented by Marion S. Riggs, Esquire; Nancy L. Cave appeared pro se, and Marsha A. Ward, General Counsel, represented the Commission Staff.

The Company presented the testimony of Henry B. Rickenbacker. The Commission Staff presented the testimony of D. Joe Maready, Accountant, and Robert W. Burgess, Utilities Rate Analyst. The Intervenor, Mrs. Cave, presented testimony and participated through the cross-examination of the witnesses.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Quail Ridge provides water service to 60 residential customers in Davis Station, Clarendon County, South Carolina. The

Company's present rates were granted by the Commission in Docket No. 77-257-W, Order No. 77-607, dated September 7, 1977.

2. With regard to Quail Ridge's present rates, the Company approved rates are a flat monthly fee of \$7.00 and a one time tap fee of \$250. It came to the Commission's attention during the hearing that through an unintentional error, the Company had been charging a flat monthly fee of \$7.50 to its customers.

3. The Company proposes to increase its flat rate to \$12.00 per month for water service. The Company also proposes to increase its tap fee to \$450.00 for new connections. The proposed monthly increase amounts to a 71.43% increase over Quail Ridge's currently approved rate and a 60% increase over what the Company is presently charging.

4. Quail Ridge asserts its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to insure adequate water services for all the customers. Quail Ridge serves approximately 60 customers, and more customers will be added in the future. According to the testimony of Mr. Rickenbacker, the present lines are almost at their maximum capacity and new lines will need to be installed to meet the future needs of the area. The Company's current rates were approved by the Commission in 1977. Additionally, Mr. Rickenbacker is not paid a salary for the time he spends overseeing and directing the Company's business and maintenance. No time or travel expenses are charged to the Company when monthly

water samples are taken to Sumter, South Carolina. These are examples of the expenses that are absorbed by Mr. Rickenbacker and not charged to the utility.

5. Neither Quail Ridge nor the Commission Staff have received any service complaints in the past year.

6. Quail Ridge did not disagree with the accounting adjustments proposed by the Commission Staff.

7. Under the Company's presently approved rates, after pro forma and accounting adjustments, the Commission Staff determined that Quail Ridge's operating revenues, operating expenses, and net income for return for the Company's overall systems were \$5,040, \$3,984, and \$1,056, respectively, for the test year ending December 31, 1991.

8. After making accounting and pro forma adjustments, the Commission Staff concluded that the Company's present operating margin is 20.95%, for the test year. The Commission Staff determined that the Company's proposed increase in its rates and charges would increase its operating margin to 43.52%.

CONCLUSIONS OF LAW

1. The Company is a water utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S. C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses and, consequently, the validity

of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustments for any known and measurable and out-of-test-year changes and expenses, revenues, and investments and will also consider adjustments for any unusual situations which occurred in the test year. See Southern Bell v. The Public Service Commission, 270 S.C. 490, 244 S.E. 2d 278 (1978). In light of the fact that the Company proposes that the 12-month period ending December 31, 1991, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending December 31, 1991 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the pro forma and accounting adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. The Commission notes that the Company did not disagree with the Commission Staff's adjustments.

4. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$5,040, \$3,984, and \$1,056, respectively. These figures are reflected in Table A as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$5,040
Operating Expenses	3,984
Net Operating Income	<u>\$1,056</u>
Customer Growth	-0-
Total Income for Return	<u>\$1,056</u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of

the rates of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in the case of Patton, supra.

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for combined operations is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$5,040
Operating Expenses	3,984
Net Operating Income	<u>\$1,056</u>
Customer Growth	-0-
Total Income for Return	<u><u>\$1,056</u></u>
Operating Margin	<u><u>20.95%</u></u>

7. The Commission is mindful of the standard delineated in

the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water, the quality of the water service, and the effect of the proposed rates upon the consumers. See Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, 401 S.E. 2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair return standard with the respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 33.71% operating margin. In order to have a reasonable opportunity to earn a 33.71% operating margin, the Company will need to produce \$6,840 in total annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$6,840
Operating Expenses	<u>4,534</u>
Net Operating Income	\$2,306
Customer Growth	<u>-0-</u>
Total Income for Return	<u>\$2,306</u>
Operating Margin	<u>33.71%</u>

10. The Commission has carefully reviewed the financial status of the Company and its requested increase in its rates and charges. The Commission has also considered the testimony of Nancy Cave, the Intervenor in this case, who is a customer and has been served since January 1991. Ms. Cave did not have any service complaints, but opposed the increase on several grounds. She testified that the Company has been charging her \$7.50 per month instead of the Commission approved \$7.00 per month and that she and other similarly situated customers should be due a refund. Ms. Cave also opposed the increase on the basis that the current rates and tap fees provide sufficient income to the Company.

11. In considering the requested increase, the Commission has considered the interests of the utility, as well as the customers of Quail Ridge. The Commission has determined that the proposed increase is unreasonable, and that a more appropriate increase is a monthly charge of \$9.50 per month. While this results in an operating margin of 33.71%, the Commission notes that there are

many expenses, such as salaries and travel, that are not charged to the utility's operations. In light of the testimony regarding the need to increase Quail Ridge's tap fees to \$450.00 for new connections, the Commission has determined that request is appropriate and is herein approved. The Commission further determines that a refund is not required.

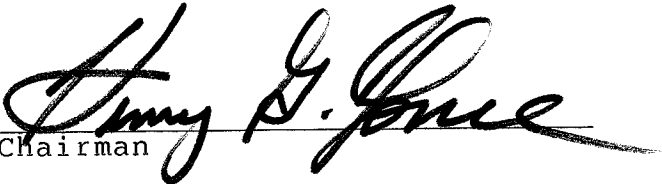
12. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

13. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

14. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as adopted by this Commission.

15. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

QUAIL RIDGE WATER COMPANY
P.O. BOX 7
SUMMERTON, S. C. 29148
(803) 435-8414

FILED PURSUANT TO DOCKET NO. 92-184-W - ORDER NO. 92-975
EFFECTIVE DATE: NOVEMBER 16, 1992

THE SCHEDULE OF WATER RATES AND CHARGES ARE AS FOLLOWS:

Monthly Service Charge	\$ 9.50
Tap fee	-	\$450.00